

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Lincoln Park, Michigan</u>	County <u>Wayne</u>
Audit Date June 30, 2004	Opinion Date September 24, 2004	Date Accountant Report Submitted To State: November 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **City of Lincoln Park, Michigan**

---

## **Financial Report with Supplemental Information June 30, 2004**

# City of Lincoln Park, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Fund Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets	19
Component Units:	
Statement of Net Assets	20
Statement of Activities	21-22
Notes to Financial Statements	23-45
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	46-47
Budgetary Comparison Schedule - Major Special Revenue Fund - Community Development Block Grant Fund	48

### Required Supplemental Information (Continued)

#### Retirement Systems Schedules of Funding Progress and Employer

##### Contributions:

Municipal Employees' Retirement System	49
Police and Fire Retirement System	50

### Other Supplemental Information

#### Nonmajor Governmental Funds:

Combining Balance Sheet	51-52
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	53-54

#### Fiduciary Funds:

Combining Statement of Net Assets	55
Combining Statement of Changes in Net Assets	56

## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Lincoln Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not maintained a complete record of its fixed assets due to the exclusion of certain City-owned land. The value of City-owned land, which has not been determined by the City, should be recorded in the capital assets of the governmental activities.

In our opinion, except for the effects on the financial statements of the omission of the City-owned land as explained in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lincoln Park, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and City Council  
City of Lincoln Park, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln Park, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining statements included in other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the City of Lincoln Park, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 24, 2004

# City of Lincoln Park, Michigan

---

## Management's Discussion and Analysis

Our discussion and analysis of the City of Lincoln Park, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$613,000 this year. The City reacted by reducing capital purchases.
- Total net assets related to the City's governmental activities decreased by approximately \$2,633,000, due mainly to decreased state-shared revenue mentioned above and depreciation expense of approximately \$3,914,000 recorded on capital assets.
- The City continued utilizing the road millage revenue by spending approximately \$1,387,000 on road construction this fiscal year.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Lincoln Park, Michigan as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current assets	\$ 12,240,108	\$ 12,253,398	\$ 2,906,071	\$ 2,732,383	\$ 15,146,179	\$ 14,985,781
Noncurrent assets	<u>45,709,650</u>	<u>46,871,545</u>	<u>34,617,255</u>	<u>34,409,028</u>	<u>80,326,905</u>	<u>81,280,573</u>
Total assets	57,949,758	59,124,943	37,523,326	37,141,411	95,473,084	96,266,354
Liabilities:						
Current liabilities	6,359,042	4,467,837	1,972,256	1,740,019	8,331,298	6,207,856
Long-term liabilities	<u>3,025,202</u>	<u>3,360,628</u>	<u>13,781,959</u>	<u>14,842,369</u>	<u>16,807,161</u>	<u>18,202,997</u>
Total liabilities	<u>9,384,244</u>	<u>7,828,465</u>	<u>15,754,215</u>	<u>16,582,388</u>	<u>25,138,459</u>	<u>24,410,853</u>
Net assets:						
Invested in capital assets -						
Net of related debt	44,857,854	45,851,544	15,858,332	17,059,150	60,716,186	62,910,694
Restricted	1,778,578	1,590,632	3,926,839	1,515,604	5,705,417	3,106,236
Unrestricted	<u>1,929,082</u>	<u>3,854,302</u>	<u>1,983,940</u>	<u>1,984,269</u>	<u>3,913,022</u>	<u>5,838,571</u>
Total net assets	<b><u>\$ 48,565,514</u></b>	<b><u>\$ 51,296,478</u></b>	<b><u>\$ 21,769,111</u></b>	<b><u>\$ 20,559,023</u></b>	<b><u>\$ 70,334,625</u></b>	<b><u>\$ 71,855,501</u></b>

The City's combined net assets decreased 2.2 percent from a year ago - decreasing from \$71,855,501 to \$70,334,625. As we look at the business-type activities separately from the governmental activities, we can see that the total net assets of the business-type activities increased just over \$1,210,000, or 5.9 percent.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$1,925,220 for the governmental activities. This represents a decrease of approximately 50 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,929,082, or about 6 percent of expenditures.



# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 3,536,698	\$ 3,224,627	\$ 5,980,831	\$ 5,924,963	\$ 9,517,529	\$ 9,149,590
Operating grants and contributions	4,160,386	4,062,276	-	-	4,160,386	4,062,276
Capital grants and contributions	37,541	148,800	-	-	37,541	148,800
General revenue:						
Property taxes	14,054,540	14,887,133	1,760,868	1,648,906	15,815,408	16,536,039
State-shared revenue	5,434,850	6,025,994	-	-	5,434,850	6,025,994
Unrestricted investment earnings	259,717	248,356	50,948	60,127	310,665	308,483
Franchise fees	396,093	421,489	-	-	396,093	421,489
Transfers and other revenue	44,165	11,450	-	-	44,165	11,450
Total revenue	27,923,990	29,030,125	7,792,647	7,633,996	35,716,637	36,664,121
<b>Program Expenses</b>						
General government	4,726,419	4,241,082	-	-	4,726,419	4,241,082
Public safety	14,079,053	13,608,144	-	-	14,079,053	13,608,144
Public works	8,630,671	9,528,108	-	-	8,630,671	9,528,108
Community and economic development	1,201,853	1,430,637	-	-	1,201,853	1,430,637
Recreation and culture	2,015,614	2,058,621	-	-	2,015,614	2,058,621
Interest on long-term debt	1,344	32,951	-	-	1,344	32,951
Water and sewer	-	-	6,582,559	6,701,960	6,582,559	6,701,960
Total program expenses	30,654,954	30,899,543	6,582,559	6,701,960	37,237,513	37,601,503
<b>Change in Net Assets</b>	<b>\$ (2,730,964)</b>	<b>\$ (1,869,418)</b>	<b>\$ 1,210,088</b>	<b>\$ 932,036</b>	<b>\$ (1,520,876)</b>	<b>\$ (937,382)</b>

### Governmental Activities

The City's total governmental revenues decreased by approximately \$1,106,000, due to decreases in State-shared revenue, cable franchise fees, property taxes, and grants. The decrease in property taxes was the result of the elimination of a separate millage for the water main maintenance bonds, as these bonds were paid off during the year. State-shared revenue decreases resulted from legislative cuts in the statutory portion of state sales tax distributions to local units of government.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

Expenses decreased by approximately \$245,000 during the year. Decreases related primarily to a reduction in road repair activity. These decreases were somewhat offset by increases in other expenses. Increases were led by large increases in health care costs and property insurance rates. To offset this, the City monitored its spending in all other areas, including seasonal hiring and overtime costs. The City also has had a complete year operating under the new self-funded prescription program to help reduce health care increases.

### **Business-type Activities**

The City's business-type activities consist mostly of the Water and Sewer Fund. We provide water to residents, which we purchase from the Detroit Water System. We provide sewage treatment through a county-operated sewage treatment plant.

### **The City's Funds**

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's mayor and Council create funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, the Community Development Block Grant Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety, which incurred expenses of approximately \$14,079,000 in 2004.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. The revenue-sharing budget was amended to reflect the reduction proposed by the State. The general government budget was amended to reflect the retroactive wage rate increases for union contracts settled during the year. The motor pool rental revenues were unfavorable this year. In total, the City's departments stayed below budget, resulting in a total expenditure variance of approximately \$430,000 below budget.

### **Capital Asset and Debt Administration**

During 2004, the City invested \$3,188,260 in a broad range of capital assets, including roads, sweepers and other vehicles, and equipment for the motor pool and water and sewer system.

# City of Lincoln Park, Michigan

## Management's Discussion and Analysis (Continued)

### Economic Factors and Next Year's Budgets and Rates

The City needs to closely monitor further reductions in State-shared revenues as this is the second largest source of revenue to the City. Any further reductions will have a significant impact on the City's General Fund budget. The City also needs to closely monitor the costs related to the early retirement incentive program. The City needs to track cost savings reaped by eliminating positions. These savings will be somewhat offset by increasing pension and health care contributions.

Water rates were examined and a public hearing was held in the fall of 2004, which resulted in approval of an increase to the water rates of approximately 14 percent.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at (313) 386-1800.

# City of Lincoln Park, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 5,379,142	\$ 2,058,823	\$ 7,437,965	\$ 577,476
Receivables:				
Taxes	1,158,461	110,442	1,268,903	-
Customers	-	2,024,651	2,024,651	-
Special assessments	60,731	-	60,731	-
Loans receivable	2,184,669	-	2,184,669	100,301
Accrued interest and other	455,492	1,713	457,205	-
Due from other governmental units	1,480,528	-	1,480,528	-
Internal balances	1,337,350	(1,337,350)	-	-
Due from component units (due to primary government)	32,795	-	32,795	(32,795)
Deposits and other assets	19,755	-	19,755	-
Inventories	131,185	47,792	178,977	-
Restricted assets (Note 8)	-	3,926,839	3,926,839	-
Capital assets - Net (Note 5)	45,709,650	30,690,416	76,400,066	172,072
 Total assets	 57,949,758	 37,523,326	 95,473,084	 817,054
<b>Liabilities</b>				
Accounts payable	908,062	793,042	1,701,104	4,423
Accrued and other liabilities	1,988,694	129,089	2,117,783	100,301
Due to other governmental units	-	-	-	68,989
Deferred revenue (Note 4)	2,564,430	-	2,564,430	-
Noncurrent liabilities (Note 7):				
Due within one year	897,856	1,050,125	1,947,981	-
Due in more than one year	3,025,202	13,781,959	16,807,161	-
 Total liabilities	 9,384,244	 15,754,215	 25,138,459	 173,713
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	44,857,854	15,858,332	60,716,186	172,072
Restricted:				
Streets and highways	1,224,813	-	1,224,813	-
Debt service	553,765	2,111,739	2,665,504	-
Sewer improvements	-	1,815,100	1,815,100	-
Unrestricted	1,929,082	1,983,940	3,913,022	471,269
 Total net assets	 \$ 48,565,514	 \$ 21,769,111	 \$ 70,334,625	 \$ 643,341

# City of Lincoln Park, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 4,726,419	\$ 230,499	\$ 15,243	\$ -
Public safety	14,079,053	1,489,926	323,120	37,541
Public works	8,630,671	1,282,732	2,603,729	-
Community and economic development	1,201,853	8,559	1,193,294	-
Recreation and culture	2,015,614	524,982	25,000	-
Interest on long-term debt	1,344	-	-	-
Total governmental activities	30,654,954	3,536,698	4,160,386	37,541
Business-type activities - Water and Sewer	6,582,559	5,980,831	-	-
Total primary government	<u><b>\$ 37,237,513</b></u>	<u><b>\$ 9,517,529</b></u>	<u><b>\$ 4,160,386</b></u>	<u><b>\$ 37,541</b></u>
Component units:				
Economic Development Corporation	\$ 6,137	\$ 44,825	\$ -	\$ -
Downtown Development Authority	157,083	-	-	-
Total component units	<u><b>\$ 163,220</b></u>	<u><b>\$ 44,825</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes:				
City operating and rubbish				
Retention basin and Downriver sewer system				
Road maintenance				
Downtown Development Authority				
Total property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Gain on sale of assets				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (4,480,677)	\$ -	\$ (4,480,677)	\$ -
(12,228,466)	-	(12,228,466)	-
(4,744,210)	-	(4,744,210)	-
-	-	-	-
(1,465,632)	-	(1,465,632)	-
(1,344)	-	(1,344)	-
(22,920,329)	-	(22,920,329)	-
-	(601,728)	(601,728)	-
(22,920,329)	(601,728)	(23,522,057)	-
-	-	-	38,688
-	-	-	(157,083)
-	-	-	(118,395)
12,294,845	-	12,294,845	-
-	1,760,868	1,760,868	-
1,759,695	-	1,759,695	-
-	-	-	292,818
14,054,540	1,760,868	15,815,408	292,818
5,434,850	-	5,434,850	-
259,717	50,948	310,665	9,426
396,093	-	396,093	-
44,165	-	44,165	-
20,189,365	1,811,816	22,001,181	302,244
(2,730,964)	1,210,088	(1,520,876)	183,849
51,296,478	20,559,023	71,855,501	459,492
<b>\$ 48,565,514</b>	<b>\$ 21,769,111</b>	<b>\$ 70,334,625</b>	<b>\$ 643,341</b>

# City of Lincoln Park, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	Major Funds			
	General	Community Development Block Grant	Nonmajor Funds	Total Governmental Funds
	Fund	Fund		
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,378,059	\$ 570,783	\$ 2,430,300	\$ 5,379,142
Receivables:				
Taxes	1,059,143	-	99,318	1,158,461
Special assessments	-	-	60,731	60,731
Loans receivable	-	2,184,669	-	2,184,669
Accrued interest and other	258,994	-	2,266	261,260
Due from other governmental units	1,054,385	2,075	424,068	1,480,528
Due from other funds (Note 6)	1,963,876	-	132,941	2,096,817
Due from component units	32,795	-	-	32,795
Deposits and other assets	19,755	-	-	19,755
Inventories	131,185	-	-	131,185
Total assets	<u>\$ 6,898,192</u>	<u>\$ 2,757,527</u>	<u>\$ 3,149,624</u>	<u>\$ 12,805,343</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 624,071	\$ 54	\$ 283,937	\$ 908,062
Accrued and other liabilities	1,926,637	538	49,880	1,977,055
Due to other funds (Note 6)	33,726	280,688	445,053	759,467
Deferred revenue (Note 4)	88,183	2,476,247	60,731	2,625,161
Total liabilities	2,672,617	2,757,527	839,601	6,269,745
<b>Fund Balances</b>				
Reserved for inventories	131,185	-	-	131,185
Unreserved - Reported in:				
General Fund	4,094,390	-	-	4,094,390
Special Revenue Funds	-	-	1,741,770	1,741,770
Debt Service Funds	-	-	553,765	553,765
Capital Projects Fund	-	-	14,488	14,488
Total fund balances	4,225,575	-	2,310,023	6,535,598
Total liabilities and fund balances	<u>\$ 6,898,192</u>	<u>\$ 2,757,527</u>	<u>\$ 3,149,624</u>	<u>\$ 12,805,343</u>

# City of Lincoln Park, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2004**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 6,535,598</b>
--	---------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	45,709,650
Special assessment and grant receivables are expected to be collected over several years, and are not available to pay for current year expenditures	60,731
Personal property receivables are expected to be collected over several years, and are not available to pay for current year expenditures	194,232
Accrued interest payable is recorded as a liability in governmental activities	(11,639)
Compensated absences are included as a liability in governmental activities	(2,381,262)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds	<u>(1,541,796)</u>

<b>Net Assets - Governmental Activities</b>	<b><u>\$ 48,565,514</u></b>
---	-----------------------------



# City of Lincoln Park, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Funds			
	General	Community Development Block Grant	Nonmajor Funds	Total Governmental Funds
	Fund	Fund		
<b>Revenue</b>				
Property taxes	\$ 12,294,845	\$ -	\$ 1,759,695	\$ 14,054,540
Federal sources	58,821	840,526	-	899,347
State sources	5,625,017	-	2,496,921	8,121,938
Licenses and permits	2,479,620	-	-	2,479,620
Fines and forfeitures	1,495,123	-	-	1,495,123
Interest and rentals	243,952	-	18,415	262,367
Other	621,834	361,327	198,614	1,181,775
Total revenue	22,819,212	1,201,853	4,473,645	28,494,710
<b>Expenditures</b>				
Current:				
General government	4,119,570	-	-	4,119,570
Public safety	14,011,289	-	244,207	14,255,496
Public works	3,763,789	-	3,791,977	7,555,766
Community development	-	1,201,853	-	1,201,853
Recreation and culture	1,795,729	-	-	1,795,729
Debt service	-	-	496,566	496,566
Capital outlay	472,600	-	738,881	1,211,481
Total expenditures	24,162,977	1,201,853	5,271,631	30,636,461
<b>Excess of Expenditures Over Revenue</b>	(1,343,765)	-	(797,986)	(2,141,751)
<b>Other Financing Sources (Uses)</b>				
Transfers in	30,000	-	579,261	609,261
Transfers out	(130,075)	-	(479,186)	(609,261)
Debt proceeds	472,600	-	-	472,600
Total other financing sources (uses)	372,525	-	100,075	472,600
<b>Net Change in Fund Balances</b>	(971,240)	-	(697,911)	(1,669,151)
<b>Fund Balances - Beginning of year</b>	5,196,815	-	3,007,934	8,204,749
<b>Fund Balances - End of year</b>	<u>\$ 4,225,575</u>	<u>\$ -</u>	<u>\$ 2,310,023</u>	<u>\$ 6,535,598</u>

# City of Lincoln Park, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,669,151)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	2,752,651
Capital assets used in governmental activities are not considered financial resources; as such, depreciation recorded on those assets is not considered an activity of the funds	(3,914,546)
Grant revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end	(40,000)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(89,675)
Proceeds from the issuance of debt are not reported as revenue in the funds	(472,600)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	640,805
Interest expense is recorded in the funds when due; it is recorded in the statement of activities when incurred	6,377
Decrease in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	<u>55,175</u>

**Change in Net Assets of Governmental Activities** \$ (2,730,964)

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 1,977,942	\$ 80,881	\$ 2,058,823
Receivables:			
Taxes	110,442	-	110,442
Customers	2,024,651	-	2,024,651
Other	1,713	-	1,713
Inventories	47,792	-	47,792
Total current assets	4,162,540	80,881	4,243,421
Long-term assets:			
Restricted assets (Note 8)	3,926,839	-	3,926,839
Capital assets (Note 5)	30,690,416	-	30,690,416
Total assets	38,779,795	80,881	38,860,676
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	790,727	2,315	793,042
Accrued and other liabilities	129,089	-	129,089
Due to other funds (Note 6)	1,337,350	-	1,337,350
Current liabilities payable from restricted assets (Note 8)	1,050,125	-	1,050,125
Total current liabilities	3,307,291	2,315	3,309,606
Long-term debt - Net of current portion (Note 7)	13,781,959	-	13,781,959
Total liabilities	17,089,250	2,315	17,091,565
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	15,858,332	-	15,858,332
Restricted (Note 8)	3,926,839	-	3,926,839
Unrestricted and undesignated	1,905,374	78,566	1,983,940
Total net assets	<u>\$ 21,690,545</u>	<u>\$ 78,566</u>	<u>\$ 21,769,111</u>

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2004

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
<b>Operating Revenue</b>			
Sale of water	\$ 2,116,098	\$ -	\$ 2,116,098
Sewage disposal charges	3,216,085	-	3,216,085
Other	648,648	-	648,648
Total operating revenue	5,980,831	-	5,980,831
<b>Operating Expenses</b>			
Cost of water	1,049,994	-	1,049,994
Cost of sewage disposal	1,621,050	-	1,621,050
Operation and maintenance	331,299	-	331,299
General and administrative	1,387,792	-	1,387,792
Depreciation	997,683	-	997,683
Other	591,948	-	591,948
Total operating expenses	5,979,766	-	5,979,766
<b>Operating Income</b>	1,065	-	1,065
<b>Nonoperating Revenue (Expense)</b>			
Property taxes	1,760,868	-	1,760,868
Investment income	50,948	-	50,948
Interest expense	(602,793)	-	(602,793)
Total nonoperating revenue	1,209,023	-	1,209,023
<b>Change in Net Assets</b>	1,210,088	-	1,210,088
<b>Net Assets - Beginning of year</b>	20,480,457	78,566	20,559,023
<b>Net Assets - End of year</b>	<u>\$ 21,690,545</u>	<u>\$ 78,566</u>	<u>\$ 21,769,111</u>

# City of Lincoln Park, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Major Fund	Nonmajor Fund	
	Water and Sewer Fund	Development Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 5,535,782	\$ -	\$ 5,535,782
Payment to suppliers	(3,246,927)	-	(3,246,927)
Payments to employees for wages and benefits	(1,386,122)	-	(1,386,122)
Other receipts	<u>648,648</u>	<u>78,602</u>	<u>727,250</u>
Net cash provided by operating activities	1,551,381	78,602	1,629,983
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of property taxes	1,747,531	-	1,747,531
Payment to County Debt Service Fund	(828,679)	-	(828,679)
Purchase of capital assets	(435,609)	-	(435,609)
Principal paid on debt	(497,235)	-	(497,235)
Interest paid on debt	<u>(363,493)</u>	<u>-</u>	<u>(363,493)</u>
Net cash used in capital and related financing activities	(377,485)	-	(377,485)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>24,443</u>	<u>-</u>	<u>24,443</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,198,339	78,602	1,276,941
<b>Cash and Cash Equivalents</b> - July 1, 2003	<u>2,702,852</u>	<u>2,279</u>	<u>2,705,131</u>
<b>Cash and Cash Equivalents</b> - June 30, 2004	<u><b>\$ 3,901,191</b></u>	<u><b>\$ 80,881</b></u>	<u><b>\$ 3,982,072</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ 1,977,942	\$ 80,881	\$ 2,058,823
Restricted assets (Note 8)	<u>1,923,249</u>	<u>-</u>	<u>1,923,249</u>
Total	<u><b>\$ 3,901,191</b></u>	<u><b>\$ 80,881</b></u>	<u><b>\$ 3,982,072</b></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 1,065	\$ -	\$ 1,065
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	997,683	-	997,683
Changes in assets and liabilities:			
Decrease in receivables	204,007	-	204,007
Decrease in due from other funds	-	171,286	171,286
Increase in accounts payable	181,842	-	181,842
Increase (decrease) in due to other funds	164,434	(92,684)	71,750
Decrease in accrued and other liabilities	<u>2,350</u>	<u>-</u>	<u>2,350</u>
Net cash provided by operating activities	<u><b>\$ 1,551,381</b></u>	<u><b>\$ 78,602</b></u>	<u><b>\$ 1,629,983</b></u>

There were no noncash transactions during 2004.

# City of Lincoln Park, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 66,927	\$ 41,834
Investments (Note 3)	59,508,744	-
Accrued interest	303,857	-
Total assets	59,879,528	<u>\$ 41,834</u>
<b>Liabilities</b>		
Due to other governmental units	-	\$ 37,691
Accrued and other liabilities	18,000	4,143
Total liabilities	18,000	<u>\$ 41,834</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 59,861,528</u>	

# City of Lincoln Park, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits
<b>Additions</b>	
Contributions:	
Employer	\$ 1,739,572
Plan members	909,045
Health benefit	<u>313,840</u>
Total contributions	2,962,457
Investment earnings:	
Net increase in fair value of investments	4,950,781
Interest and dividends	1,645,933
Less investment expenses	<u>(386,111)</u>
Total investment earnings	<u>6,210,603</u>
Total additions	9,173,060
<b>Deductions</b>	
Benefit payments	4,475,687
Refunds of contributions	1,831,740
Administrative expenses	<u>72,819</u>
Total deductions	<u>6,380,246</u>
<b>Net Increase in Plan Net Assets</b>	2,792,814
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	
Beginning of year	<u>57,068,714</u>
End of year	<u><u>\$ 59,861,528</u></u>

# City of Lincoln Park, Michigan

## Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Economic Development Corporation	Totals
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 263,263	\$ 314,213	\$ 577,476
Loans receivable	-	100,301	100,301
Land	172,072	-	172,072
Total assets	435,335	414,514	849,849
<b>Liabilities</b>			
Accounts payable	4,423	-	4,423
Deferred revenue	-	100,301	100,301
Due to primary government	26,273	6,522	32,795
Due to other governmental units	-	68,989	68,989
Total liabilities	30,696	175,812	206,508
<b>Net Assets</b>	<b>\$ 404,639</b>	<b>\$ 238,702</b>	<b>\$ 643,341</b>



# City of Lincoln Park, Michigan

---

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Governmental activities:			
Economic Development Corporation	\$ 6,137	\$ 44,825	\$ -
Downtown Development Authority	<u>157,083</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><b>\$ 163,220</b></u>	<u><b>\$ 44,825</b></u>	<u><b>\$ -</b></u>

## General revenues:

Property taxes

Interest

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ - (157,083)	\$ 38,688 -	\$ 38,688 (157,083)
(157,083)	38,688	(118,395)
292,818 403	- 9,023	292,818 9,426
293,221	9,023	302,244
136,138	47,711	183,849
268,501	190,991	459,492
<b>\$ 404,639</b>	<b>\$ 238,702</b>	<b>\$ 643,341</b>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Lincoln Park, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lincoln Park, Michigan:

#### **Reporting Entity**

The City of Lincoln Park, Michigan is governed by an elected six-member Council and the mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

#### **Blended Component Units**

- a. The Building Authority is a City-created and City-directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings.
- b. The City of Lincoln Park Police and Fire Retirement System and Municipal Employees’ Retirement System have also been blended into the City’s financial statements. Both systems are governed by five-member pension boards. The mayor and one City Council member sit on each board. Two members of the Board are elected by the participants. In addition, the City Council appoints one City resident to each board. The systems are reported as if they were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems.

#### **Discretely Presented Component Units**

- a. The Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of eight individuals, is appointed by the mayor. The appointment is subject to approval by the City Council. In addition, the Authority’s budget is subject to approval by the City Council.

### **Note I - Summary of Significant Accounting Policies (Continued)**

- b. The Economic Development Corporation (EDC) is reported in a separate column to emphasize that it is legally separate from the City. The EDC was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council and mayor.

The component units above do not issue separate financial statements.

The City has excluded the Lincoln Park Housing Commission from this report because the City is not able to impose its will on the Housing Commission.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds, fiduciary funds, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following two major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Community Development Block Grant Fund** - The Community Development Block Grant Fund accounts for the resources of federal grant revenues, which are restricted for use in assisting the City with community development.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Water and Sewer Fund** - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the Police and Fire Retirement System, the Municipal Employees' Retirement System, and the Retirees' Health Benefit Fund, which accumulate resources for pension and postretirement health benefit payments to qualified police and fire and municipal employees.

**Agency Funds** - The Agency Funds are used to account for assets held by the City in a trustee capacity for other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has not elected to apply private sector standards issued after December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown as net of allowance for uncollectible amounts.

**Property Taxes** - Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1. The taxes are due on February 28 before they are added to the county tax rolls. Taxpayers not paying one-third of the tax by August 20, one-third by October 15, and the balance by February 28 are subject to penalties. Property tax receivables are shown net of allowance for uncollectible amounts.

The 2003 taxable valuation of the City totaled \$647 million, on which ad valorem taxes levied consisted of 16.3731 mills for the City's operating purposes, 2.4558 mills for refuse, 2.7776 mills for road construction, 1.3600 mills for Ecorse Creek debt, and 1.2500 mills for Downriver Sewage Disposal System debt. The ad valorem taxes levied are recognized in the respective General, Special Revenue, and Water and Sewer Fund financial statements as taxes receivable - current or as tax revenue.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. General Fund fund balance has been reserved in an amount equal to the cost of the inventory. The inventory includes gasoline and supplies for machinery and equipment.

**Restricted Assets** - The restricted assets in the Water and Sewer Fund consist of cash and cash equivalents restricted to provide for the replacement of water and sewer assets. Also, monies received from a tax levy are restricted for the payment of outstanding Water and Sewer Fund debt. In addition, restricted assets result from the establishment of debt reserves related to county sewage disposal system bonds.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City using different individual costs and estimated useful lives, depending on the different asset uses and classifications. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has not capitalized any City-owned land.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Water and sewer distribution systems	20-75 years
Buildings and building improvements	10-45 years
Vehicles	5-20 years
Machinery and equipment	10-45 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The budget represents a complete financial plan for all activities of the City for the ensuing fiscal year. All estimated income and proposed expenditures are detailed and presented in a form prescribed by law.

The budget process begins with goals and objectives meetings in April with the City Council and administrative staff. These are public meetings. Based upon presentations by the City staff and discussion between the mayor and the City Council, goals and objectives are prioritized by the City Council for the next fiscal year.

Each April, department heads receive workpapers to prepare their individual line item budgets. Upon completion, the departmental budgets are returned to the controller in May. The controller then analyzes these amounts. Further discussions occur with department heads and the budget is adjusted accordingly.

A proposed, balanced budget is then developed to support the direction and focus established for the community by the City Council. Specific issues are identified which are vital to continued quality services within the means available. This method of budgeting serves to improve the level of organizational accountability. City Council meetings, held in May, provide all interested citizens an open forum where they can be heard. Upon review and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget is scheduled for adoption at the first regular City Council meeting in June. The operating millage rate is established as part of the budget adoption resolution at that meeting.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, with the following exception:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)".
- Capital outlay financed with debt is budgeted net of the related debt proceeds.

The budget comparison for the General Fund and Major Special Revenue Fund, as adopted by the City Council, is included as required supplemental information. Budget comparisons for other Special Revenue Funds (except for the Compensated Absences Fund, which was not budgeted) are available at City Hall.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Lincoln Park, Michigan's General Fund incurred significant expenditures that were in excess of the amounts budgeted related to police and motor pool as follows:

	Budget	Actual	Unfavorable Variance
Public Safety - Police	\$ 7,508,395	\$ 7,791,636	\$ (283,241)
Public Works - Motor Pool	<u>112,910</u>	<u>518,558</u>	<u>(405,648)</u>
Total	<u>\$ 7,621,305</u>	<u>\$ 8,310,194</u>	<u>\$ (688,889)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The City of Lincoln Park, Michigan's deposits and investment policies are in accordance with statutory authority.

The retirement funds are also authorized by various State of Michigan laws to invest in certain corporate equity or debt instruments and certain other specified investment vehicles.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 5,379,142	\$ 2,058,823	\$ 108,761	\$ 7,546,726	\$ 577,476
Investments	-	-	59,508,744	59,508,744	-
Restricted assets (Note 8)	-	1,923,249	-	1,923,249	-
Total	<u>\$ 5,379,142</u>	<u>\$ 3,982,072</u>	<u>\$ 59,617,505</u>	<u>\$ 68,978,719</u>	<u>\$ 577,476</u>

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,496,140	\$ 297,262
Investments in securities, mutual funds, and similar vehicles	65,480,214	280,214
Petty cash or cash on hand	<u>2,365</u>	<u>-</u>
Total	<u>\$ 68,978,719</u>	<u>\$ 577,476</u>

The bank balance of the City's deposits is approximately \$3,404,000, of which \$149,580 is covered by federal depository insurance. The component units' deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$297,000, of which \$150,000 was covered by federal depository insurance. The City of Lincoln Park, Michigan believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City Council evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's investments are categorized below to give an indication of the level of risk assumed by the City at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty or
- b. The counterparty's trust department (or agent) but not in the City's name

### Note 3 - Deposits and Investments (Continued)

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 9,034,397	\$ -	\$ 9,034,397
U.S. government securities	-	10,443,083	-	10,443,083
Common and preferred stock	-	33,833,285	-	33,833,285
Subtotal	<u>\$ -</u>	<u>\$ 53,310,765</u>	<u>\$ -</u>	53,310,765
Investments not subject to categorization:				
Bank investment pool funds				5,971,470
Mutual funds				<u>6,197,979</u>
Total primary government				<u>\$ 65,480,214</u>
Component units - Bank investment pool funds				<u>\$ 280,214</u>

The bank investment pools and the mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

The corporate stocks and bonds are all held by the retirement systems. Management believes that the investments in the funds comply with the investment authority noted above.

Included in the City's investments at June 30, 2004 are the following:

- Approximately \$293,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

### Note 3 - Deposits and Investments (Continued)

- Approximately \$6,656,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Asset-backed securities of approximately \$895,000. These securities are backed by credit card receivables. These obligations typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these “pay through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 60,731	\$ -
Grant and program income payments received prior to meeting all eligibility requirements	-	2,564,430
Total	\$ 60,731	\$ 2,564,430

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Roads and sidewalks	\$ 89,989,229	\$ 2,031,446	\$ 282,341	\$ 91,738,334
Buildings and improvements	5,993,585	-	-	5,993,585
Vehicles	3,995,764	689,278	247,567	4,437,475
Equipment	4,939,969	31,927	6,295	4,965,601
Subtotal	104,918,547	2,752,651	536,203	107,134,995
Accumulated depreciation:				
Roads and sidewalks	48,262,640	3,166,078	282,341	51,146,377
Buildings and improvements	4,503,535	77,512	-	4,581,047
Vehicles	2,514,776	248,683	247,567	2,515,892
Equipment	2,766,051	422,273	6,295	3,182,029
Subtotal	58,047,002	3,914,546	536,203	61,425,345
Net capital assets being depreciated	<u>\$ 46,871,545</u>	<u>\$ (1,161,895)</u>	<u>\$ -</u>	<u>\$ 45,709,650</u>

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Balance June 30, 2004
<b>Business-type Activities</b>			
Capital assets not being depreciated - Land	\$ 16,540	\$ -	\$ 16,540
Capital assets being depreciated:			
Water and sewer distribution systems	40,269,865	393,582	40,663,447
Buildings and building improvements	1,493,824	-	1,493,824
Vehicles	507,773	42,027	549,800
Machinery and equipment	<u>2,327,029</u>	<u>-</u>	<u>2,327,029</u>
Subtotal	44,598,491	435,609	45,034,100
Accumulated depreciation:			
Water and sewer distribution systems	11,081,341	857,546	11,938,887
Buildings and building improvements	1,270,054	33,195	1,303,249
Vehicles	133,061	51,819	184,880
Machinery and equipment	<u>878,085</u>	<u>55,123</u>	<u>933,208</u>
Subtotal	<u>13,362,541</u>	<u>997,683</u>	<u>14,360,224</u>
Net capital assets being depreciated	<u>31,235,950</u>	<u>(562,074)</u>	<u>30,673,876</u>
Net capital assets	<u>\$ 31,252,490</u>	<u>\$ (562,074)</u>	<u>\$ 30,690,416</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 52,094
Public safety	268,423
Public works	3,374,144
Recreation and culture	<u>219,885</u>
Total governmental activities	<u>\$ 3,914,546</u>
Business-type activities - Water and sewer	<u>\$ 997,683</u>



# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

**Component Units** - Capital assets of the component units consist of a parcel of land purchased by the Downtown Development Authority in 2004.

**Commitments** - The City has active construction projects at year end. The projects include various road reconstruction and parking lot improvement projects. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Champaign, Markese, Cicotte and Riopelle street improvement project	\$ 1,384,277	\$ 1,313,411
Street sectioning project	<u>616,451</u>	<u>583,011</u>
Total	<u>\$ 2,000,728</u>	<u>\$ 1,896,422</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Community Development Block Grant Fund	\$ 273,128
	Water and Sewer Fund	1,337,350
	Nonmajor governmental funds	<u>353,398</u>
	Total General Fund	1,963,876
Nonmajor governmental funds:		
Special Revenue Funds:		
Local Streets Fund	Nonmajor governmental funds	91,655
Compensated Absences Fund	Community Development Block Grant Fund	7,560
Debt Service Funds - Water Bond Debt Fund	General Fund	<u>33,726</u>
	Total Special Revenue Funds	<u>132,941</u>
	Total	<u>\$ 2,096,817</u>

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in:			
General Fund	\$ -	\$ 30,000	\$ 30,000
Nonmajor governmental funds	(1) 130,075	(2) 449,186	579,261
Total	<u>\$ 130,075</u>	<u>\$ 479,186</u>	<u>\$ 609,261</u>

(1) Transfers for debt service

(2) Transfer of Act 51 funding from Major Streets Fund to Local Streets Fund

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Water main refunding bonds:						
Amount of issue - \$6,385,000						
Maturing through 2003	4.35%	\$355,000	\$ 355,000	\$ (355,000)	\$ -	\$ -
Building Authority bonds:						
Amount of issue - \$1,350,000						
Maturing through 2003	7.80%	\$125,000	125,000	(125,000)	-	-
Total bond obligations			480,000	(480,000)	-	-

# City of Lincoln Park, Michigan

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-term Debt (Continued)

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities (Continued):</b>						
Other long-term obligations:						
Installment purchase agreements:						
Amount of issue - \$1,889,373	4.00% -	\$1,687-				
Maturing through various dates	7.58%	\$48,038	\$ 540,001	\$ 311,795	\$ 851,796	\$ 182,646
Compensated absences			2,436,437	(55,175)	2,381,262	715,210
Contingent liability - Personal property tax refunds			690,000	-	690,000	-
Total other long-term obligations			3,666,438	256,620	3,923,058	897,856
Total governmental activities			\$ 4,146,438	\$ (223,380)	\$ 3,923,058	\$ 897,856
<b>Business-type Activities - General obligation bonds</b>						
Ecorse Creek Pollution Bond - Phase III						
Amount of issue - \$10,250,000						
Maturing through 2012	5.00%	\$750,000	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -
Ecorse Creek #1 Phase III:						
Amount of issue - \$8,295,000	5.30% -	\$485,000-				
Maturing through 2010	6.0%	\$750,000	4,770,000	(485,000)	4,285,000	530,000
Downriver Sewage Disposal Bonds:						
Amount of issue - \$11,797,444	2.00% -	\$62-				
Maturing through various dates	2.50%	\$29,622	9,564,274	(517,190)	9,047,084	520,125
Total business-type activities			\$ 15,834,274	\$ (1,002,190)	\$ 14,832,084	\$ 1,050,125

Annual debt service requirements to maturity for the above debt obligations are as follows (excludes compensated absence and contingent liabilities on personal property tax refunds):

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 182,646	\$ 20,799	\$ 203,445	\$ 1,050,125	\$ 545,297	\$ 1,595,422
2006	174,699	26,597	201,296	1,054,128	502,270	1,556,398
2007	179,699	19,447	199,146	1,063,147	458,789	1,521,936
2008	165,614	12,451	178,065	1,067,673	414,829	1,482,502
2009	149,138	6,268	155,406	1,326,606	362,777	1,689,383
2010-2014	-	-	-	6,093,185	960,160	7,053,345
2015-2019	-	-	-	2,958,915	223,405	3,182,320
2020-2021	-	-	-	218,305	4,865	223,170
Total	\$ 851,796	\$ 85,562	\$ 937,358	\$ 14,832,084	\$ 3,472,392	\$ 18,304,476

### Note 8 - Restricted Assets

The restricted assets in the business-type activities consist of cash and cash equivalents restricted to provide for the replacement of Enterprise Fund assets. Also, monies received from a tax levy are restricted for the payment of outstanding Enterprise Fund debt. In addition, restricted assets result from the establishment of debt and operating reserves related to county sewage disposal system bonds. The restricted assets at June 30, 2004 consist of the following:

Cash and cash equivalents:

Ecorse Creek replacement reserve	\$ 1,000,000
Enterprise Fund debt service	403,632
Water and sewer capital improvement	173,607
Water and sewer replacement reserve	321,929
Sewer improvement reserve	<u>24,081</u>

Total cash and cash equivalents 1,923,249

Wayne County sewage disposal system:

Assets held at the County for future debt payments	1,708,107
Sewer operation reserve	<u>295,483</u>

Total restricted assets \$ 3,926,839

Current liabilities to be paid from restricted assets of \$1,050,125 at June 30, 2004 consist of the current portion of the Ecorse Creek pollution bonds and the Downriver Sewage Disposal System (Series A&B and State Revolving Fund) bonds, which are to be paid from debt levy revenue.

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

**Plan Description** - The Police and Fire Retirement System and the Municipal Employees' Retirement System are single-employer defined benefit pension plans that are administered by the City of Lincoln Park, Michigan. These plans cover all full-time police and fire employees and general employees of the City. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of the following:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>104</u>	<u>121</u>
Current employees:		
Fully vested	64	64
Nonvested	<u>32</u>	<u>50</u>
Total current employees	<u>96</u>	<u>114</u>

The plans do not issue a separate financial report.

**Funding Policy** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the systems for these employees was established by City ordinance and negotiation with the police, fire, and general employees' competitive bargaining units and requires a contribution from the employees of 8.18 percent of qualifying wages for police and fire employees and 8.41 percent of qualifying wages for general employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plans are financed through investment earnings.

### Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

**Annual Pension Costs** - For the year ended June 30, 2004, the City's annual pension cost was as follows (rounded to the nearest thousand):

	Police and Fire Retirement System	Municipal Employees' Retirement System
Annual pension cost	\$ 834,000	\$ 905,000
Actual and required contribution	834,000	905,000

The annual required contributions were determined as part of an actuarial valuation at June 30, 2003, using the entry age cost method for both the Police and Fire Retirement System and the Municipal Employees' Retirement System. Significant actuarial assumptions for both systems include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent to 8.3 percent per year; and (iii) 4.5 percent per year cost of living adjustments. Both plans assume that benefits will not increase after retirement, with the exception of police members retiring after January 1, 1996. These employees will receive an increase of \$300 in annual benefits each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

**Reserves** - As of June 30, 2004, the plans' legally required reserves have been fully funded as follows:

	Police and Fire Retirement System	Municipal Employees' Retirement System
Reserve for employees' contribution	\$ 9,668,502	\$ 7,678,493
Reserve for retired benefit payments	21,061,627	8,593,132

### Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 841,000	\$ 833,000	\$ 905,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 631,000	\$ 683,000	\$ 834,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Amounts are rounded to the nearest thousand. See Note 15 for discussion related to the early retirement incentive program.

### Note 11 - Other Postemployment Benefits

The City provides health care benefits to all employees covered by the Police and Fire Retirement System and the Municipal Employees' Retirement System upon retirement, in accordance with labor contracts. Currently, 232 retirees are eligible. The City includes pre-Medicare retirees and their spouses in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the General Fund, Water Fund, Major and Local Streets Funds, and Community Development Block Grant Fund as the insurance premiums become due; during the year, this totaled approximately \$1,182,000.

### Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2003	\$ (353,729)
Building permit revenue	392,847
Related direct expenditures	<u>(407,940)</u>
Cumulative shortfall - June 30, 2004	<u>\$ (368,822)</u>

### Note 13 - Contingent Liability

The City is involved in certain legal matters that have not progressed to a point where any ultimate liability can be determined. As such, no liability has been reflected in these statements.

### Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City's share estimated to be approximately \$14,000,000. To date, the City has issued bonds of approximately \$12,000,000 to finance construction. The remaining liability to the City is estimated to be approximately \$2,000,000. The bonds are being paid through a court-ordered judgment levy.



### **Note 15 - Subsequent Event**

Subsequent to year end, a significant number of individuals accepted early retirement incentives offered by the City. These individuals will be retiring during the period from October 1 through December 31, 2004. This early retirement program will increase the City's unfunded actuarial accrued liability. The specific impact of this program has not been reflected in Note 10 or in the required supplemental information related to funding progress. The actuary has estimated that the City's contribution to the retirement system for subsequent years will increase over the current year contribution. However, management anticipates that decreased payroll and fringe benefit costs will serve to offset the increase.

### **Note 16 - Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

## **Required Supplemental Information**

---

# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 5,196,815	\$ 5,196,815	\$ 5,196,815	\$ -
<b>Resources (Inflows)</b>				
Property taxes:				
Real and personal property taxes	10,761,000	10,761,000	10,700,999	(60,001)
Garbage and rubbish	1,560,000	1,560,000	1,546,768	(13,232)
Payments in lieu of taxes	34,700	34,700	47,078	12,378
Total property taxes	12,355,700	12,355,700	12,294,845	(60,855)
Federal sources	13,200	13,200	58,821	45,621
State sources:				
Revenue-sharing	5,870,000	5,490,339	5,434,850	(55,489)
State grants	143,000	143,000	169,895	26,895
Liquor license fees	20,000	20,000	20,272	272
Total State sources	6,033,000	5,653,339	5,625,017	(28,322)
Licenses and permits:				
Building, electrical, heating, and plumbing permits	515,815	515,815	583,069	67,254
Recreation programs	492,450	492,450	496,108	3,658
Motor pool rentals	945,000	961,854	736,393	(225,461)
Cable television franchise fee	300,000	300,000	396,281	96,281
Rental and inspection	135,200	135,200	145,625	10,425
Recycling and composting	122,000	122,000	122,144	144
Total licenses and permits	2,510,465	2,527,319	2,479,620	(47,699)
Fines and forfeitures	1,422,240	1,422,240	1,495,123	72,883
Interest and rent	180,000	180,000	243,952	63,952
Transfer from other funds	30,000	30,000	30,000	-
Other	377,940	413,535	621,834	208,299
Total resources (inflows)	28,119,360	27,792,148	28,046,027	253,879
<b>Charges to Appropriations (Outflows)</b>				
General government:				
General government	2,043,555	2,603,555	2,300,425	303,130
Mayor and Council	135,110	149,185	152,183	(2,998)
City Clerk	183,880	191,980	185,082	6,898
Election Commission	64,760	55,190	50,034	5,156
City Assessor	97,675	81,465	79,928	1,537
City Attorney	205,340	179,225	164,259	14,966
City Controller	324,480	316,215	319,752	(3,537)
Personnel and purchasing	337,400	322,000	317,400	4,600
Treasury department	257,380	254,530	262,974	(8,444)
Municipal building	136,425	176,380	161,166	15,214
Rental inspection	125,645	126,725	126,367	358
Total general government	3,911,650	4,456,450	4,119,570	336,880

# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows) (Continued)</b>				
Public safety:				
Police	\$ 7,471,760	\$ 7,508,395	\$ 7,792,399	\$ (284,004)
Fire	4,254,800	4,140,442	4,200,168	(59,726)
Civil defense	83,895	112,210	123,829	(11,619)
Building department	422,145	408,901	413,818	(4,917)
District Court	1,481,075	1,481,075	1,481,075	-
Total public safety	13,713,675	13,651,023	14,011,289	(360,266)
Public works:				
Department of Public Works	1,491,075	1,528,515	1,405,646	122,869
Planning Commission	9,400	6,900	5,445	1,455
Motor pool	(12,755)	112,910	45,958	66,952
Sidewalks	100,000	80,400	80,440	(40)
Street lighting	457,000	440,000	439,139	861
Sanitation	1,813,460	1,797,700	1,787,161	10,539
Total public works	3,858,180	3,966,425	3,763,789	202,636
Recreation and culture:				
Kennedy Memorial Building	67,150	64,860	63,008	1,852
Historical Museum	21,000	21,000	21,000	-
Parks	469,990	460,800	433,948	26,852
Recreation and culture	391,280	374,210	338,460	35,750
Library	305,740	235,070	154,287	80,783
Social services	232,000	230,500	176,742	53,758
Community Center	526,890	497,150	453,711	43,439
Senior citizens	207,205	162,891	154,573	8,318
Total recreation and culture	2,221,255	2,046,481	1,795,729	250,752
Transfers to other funds	130,075	130,075	130,075	-
Total charges to appropriations (outflows)	23,834,835	24,250,454	23,820,452	430,002
<b>Fund Balance - End of year</b>	<b>\$ 4,284,525</b>	<b>\$ 3,541,694</b>	<b>\$ 4,225,575</b>	<b>\$ 683,881</b>

# City of Lincoln Park, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Community Development Block Grant Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows)</b>				
Federal sources	2,122,582	2,122,582	840,526	(1,282,056)
Other	-	-	361,327	361,327
Total resources (inflows)	2,122,582	2,122,582	1,201,853	(920,729)
<b>Charges to Appropriations (Outflows) -</b>				
Health and welfare	2,122,582	2,122,582	1,201,853	920,729
<b>Fund Balance - End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# City of Lincoln Park, Michigan

## Required Supplementary Information Retirement Systems Schedule of Funding Progress Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/98	\$ 18,468,000	\$ 29,125,000	\$ 10,657,000	63	\$ 4,332,000	246
06/30/99	19,553,000	29,482,000	9,929,000	66	4,600,000	216
06/30/00	20,997,000	29,888,000	8,891,000	70	4,642,000	192
06/30/01	21,783,000	30,193,000	8,410,000	72	4,837,000	174
06/30/02	21,612,000	30,844,000	9,232,000	70	4,936,000	187
06/30/03	21,182,000	30,852,000	9,670,000	69	4,926,000	196

## Retirement Systems Schedule of Employer Contributions Municipal Employees' Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
1999	\$ 833,000	\$ 833,000	100.00
2000	906,000	906,000	100.00
2001	892,000	892,000	100.00
2002	841,000	841,000	100.00
2003	833,000	833,000	100.00
2004	905,000	905,000	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 3.8%

See Note 15 - Subsequent Event

# City of Lincoln Park, Michigan

## Required Supplementary Information Retirement Systems Schedule of Funding Progress Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/98	\$ 39,240,000	\$ 38,721,000	\$ (519,000)	101	\$ 5,070,000	-
06/30/99	42,067,000	39,734,000	(2,333,000)	106	5,171,000	-
06/30/00	45,090,000	42,431,000	(2,659,000)	106	5,231,000	-
06/30/01	46,725,000	44,235,000	(2,490,000)	106	5,366,000	-
06/30/02	46,939,000	46,333,000	(606,000)	101	5,611,000	-
06/30/03	46,303,000	47,487,000	1,184,000	98	5,588,000	21

## Retirement Systems Schedule of Employer Contributions Police and Fire Retirement System

Year Ended June 30	Annual Required Contribution	Actual Contribution	Percentage Contributed
1999	\$ 740,000	\$ 740,000	100.00
2000	651,000	651,000	100.00
2001	551,000	551,000	100.00
2002	631,000	631,000	100.00
2003	683,000	683,000	100.00
2004	834,000	834,000	100.00

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of June 30, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, open
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5%
*Includes inflation at	4.5%
Additional salary increases attributable to seniority/merit	0% to 3.8%

See Note 15 - Subsequent Event

## **Other Supplemental Information**

---



# City of Lincoln Park, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Street Improvement	Compensated Absences
<b>Assets</b>				
Cash and cash equivalents	\$ 612,752	\$ 375,656	\$ 349,069	\$ 509,397
Receivables:				
Taxes	-	-	99,318	-
Special assessments	-	-	-	-
Accrued interest and other	-	-	-	-
Due from other governmental units	317,796	106,272	-	-
Due from other funds	-	91,655	-	7,560
Total assets	<u>\$ 930,548</u>	<u>\$ 573,583</u>	<u>\$ 448,387</u>	<u>\$ 516,957</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 203,812	\$ 12,797	\$ 13,788	\$ -
Accrued and other liabilities	42,294	7,586	-	-
Due to other funds	299,662	142,501	5,265	-
Deferred revenue	-	-	-	-
Total liabilities	545,768	162,884	19,053	-
<b>Fund Balances - Undesignated</b>	<u>384,780</u>	<u>410,699</u>	<u>429,334</u>	<u>516,957</u>
Total liabilities and fund balances	<u>\$ 930,548</u>	<u>\$ 573,583</u>	<u>\$ 448,387</u>	<u>\$ 516,957</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

<u>Debt Service Funds</u>				Total
				Nonmajor
General Debt	Water Bonds Debt	Capital Projects Fund		Governmental Funds
\$ 101,319	\$ 416,454	\$ 65,653	\$ 2,430,300	
-	-	-	99,318	
-	-	60,731	60,731	
-	2,266	-	2,266	
-	-	-	424,068	
-	33,726	-	132,941	
<u>\$ 101,319</u>	<u>\$ 452,446</u>	<u>\$ 126,384</u>	<u>\$ 3,149,624</u>	
\$ -	\$ -	\$ 53,540	\$ 283,937	
-	-	-	49,880	
-	-	(2,375)	445,053	
-	-	60,731	60,731	
-	-	111,896	839,601	
<u>101,319</u>	<u>452,446</u>	<u>14,488</u>	<u>2,310,023</u>	
<u>\$ 101,319</u>	<u>\$ 452,446</u>	<u>\$ 126,384</u>	<u>\$ 3,149,624</u>	

# City of Lincoln Park, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Street Improvement	Compensated Absences
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ 1,759,695	\$ -
State sources	1,871,607	625,314	-	-
Interest and rentals	3,680	2,329	3,469	774
Other	80,106	26,702	-	-
Total revenue	1,955,393	654,345	1,763,164	774
<b>Expenditures</b>				
Current - Public safety	-	-	-	244,207
Current - Public works	1,615,547	789,294	1,387,136	-
Debt service	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	1,615,547	789,294	1,387,136	244,207
<b>Excess of Revenue Over (Under) Expenditures</b>	339,846	(134,949)	376,028	(243,433)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	449,186	-	-
Transfers out	(468,686)	(10,500)	-	-
Total other financing sources (uses)	(468,686)	438,686	-	-
<b>Net Change in Fund Balances</b>	(128,840)	303,737	376,028	(243,433)
<b>Fund Balances - Beginning of year</b>	513,620	106,962	53,306	760,390
<b>Fund Balances - End of year</b>	<u>\$ 384,780</u>	<u>\$ 410,699</u>	<u>\$ 429,334</u>	<u>\$ 516,957</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Debt Service Funds			
General Debt	Water Bonds Debt	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 1,759,695
-	-	-	2,496,921
755	2,757	4,651	18,415
-	-	91,806	198,614
755	2,757	96,457	4,473,645
-	-	-	244,207
-	-	-	3,791,977
131,845	364,721	-	496,566
-	-	738,881	738,881
131,845	364,721	738,881	5,271,631
(131,090)	(361,964)	(642,424)	(797,986)
130,075	-	-	579,261
-	-	-	(479,186)
130,075	-	-	100,075
(1,015)	(361,964)	(642,424)	(697,911)
102,334	814,410	656,912	3,007,934
<b>\$ 101,319</b>	<b>\$ 452,446</b>	<b>\$ 14,488</b>	<b>\$ 2,310,023</b>

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2004

	Pension and Other Employee Benefits Trust Funds				Agency Funds		
	Police and Fire Retirement	Municipal Employees' Retirement	Retirees' Health Benefit	Totals	Current Tax Collection	Payroll	Totals
<b>Assets</b>							
Cash and cash equivalents	\$ 42,905	\$ 24,022	\$ -	\$ 66,927	\$ 39,463	\$ 2,371	\$ 41,834
Investments	37,124,352	19,399,981	2,984,411	59,508,744	-	-	-
Accrued interest	230,322	73,535	-	303,857	-	-	-
Total assets	37,397,579	19,497,538	2,984,411	59,879,528	<u>\$ 39,463</u>	<u>\$ 2,371</u>	<u>\$ 41,834</u>
<b>Liabilities</b>							
Due to other governmental units	-	-	-	-	37,691	-	37,691
Accrued and other liabilities	-	-	18,000	18,000	1,772	2,371	4,143
Total liabilities	-	-	18,000	18,000	<u>\$ 39,463</u>	<u>\$ 2,371</u>	<u>\$ 41,834</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 37,397,579</u>	<u>\$ 19,497,538</u>	<u>\$ 2,966,411</u>	<u>\$ 59,861,528</u>			

# City of Lincoln Park, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

	Police and Fire Retirement System	Municipal Employees' Retirement System	Retirees' Health Benefit	Totals
<b>Additions</b>				
Contributions:				
Employer	\$ 834,494	\$ 905,078	\$ -	\$ 1,739,572
Plan members	489,258	419,787	-	909,045
Health benefit	-	-	313,840	313,840
Total contributions	1,323,752	1,324,865	313,840	2,962,457
Investment earnings:				
Net increase (decrease) in fair value of investments	2,823,843	2,193,432	(66,494)	4,950,781
Interest and dividends	1,065,804	515,342	64,787	1,645,933
Investment expenses	(254,091)	(124,275)	(7,745)	(386,111)
Total investment earnings	3,635,556	2,584,499	(9,452)	6,210,603
Total additions	4,959,308	3,909,364	304,388	9,173,060
<b>Deductions</b>				
Benefit payments	2,634,594	1,841,093	-	4,475,687
Refunds of contributions	1,733,732	98,008	-	1,831,740
Administrative expenses	46,720	8,099	18,000	72,819
Total deductions	4,415,046	1,947,200	18,000	6,380,246
<b>Net Increase in Net Assets</b>	544,262	1,962,164	286,388	2,792,814
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	36,853,317	17,535,374	2,680,023	57,068,714
End of year	<u>\$ 37,397,579</u>	<u>\$ 19,497,538</u>	<u>\$ 2,966,411</u>	<u>\$ 59,861,528</u>

# **City of Lincoln Park, Michigan**

---

**Federal Awards  
Supplemental Information  
June 30, 2004**

# City of Lincoln Park, Michigan

---

## Contents

Independent Auditor's Report	I
Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements	2-3
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	4-5
Schedule of Expenditures of Federal Awards	6
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards	8-9
Schedule of Findings and Questioned Costs	10-11



## Independent Auditor's Report

To the Mayor and City Council  
City of Lincoln Park, Michigan

We have audited the basic financial statements of the City of Lincoln Park, Michigan for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. The opinion of the basic financial statements has been qualified as the City has not recorded the value of land it owns in its government-wide financial statements. Those basic financial statements are the responsibility of the management of the City of Lincoln Park, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Lincoln Park, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 24, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements

To the Mayor and City Council  
City of Lincoln Park, Michigan

We have audited the financial statements of the City of Lincoln Park, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. The opinion of the basic financial statements has been qualified as the City has not recorded the value of land it owns in its government-wide financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Lincoln Park, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Lincoln Park, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Mayor and City Council  
City of Lincoln Park, Michigan

This report is intended solely for the information and use of the mayor, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 24, 2004

## Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

To the Mayor and City Council  
City of Lincoln Park, Michigan

### Compliance

We have audited the compliance of the City of Lincoln Park, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Lincoln Park, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Lincoln Park, Michigan's management. Our responsibility is to express an opinion on the City of Lincoln Park, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln Park, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Lincoln Park, Michigan's compliance with those requirements.

In our opinion, the City of Lincoln Park, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

To the Mayor and City Council  
City of Lincoln Park, Michigan

## **Internal Control Over Compliance**

The management of the City of Lincoln Park, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lincoln Park, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the mayor, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 24, 2004

# City of Lincoln Park, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Transportation - Passed through the Michigan Department of Transportation - Reconstruction and Replacement along Highway I-75	20.305	RR-3006	\$ 41,263,716	\$ 3,930,966
U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant:				
Program Year 1998 - B-98-MC26007	14.218	N/A	931,000	13,694
Program Year 2000 - B-00-MC26007	14.218	N/A	922,000	265
Program Year 2001 - B-01-MC26007	14.218	N/A	959,960	3,123
Program Year 2002 - B-02-MC26007	14.218	N/A	1,016,000	549,308
Program Year 2003 - B-03-MC26007	14.218	N/A	1,000,000	635,459
Total Community Development Block Grant			4,828,960	1,201,849
U.S. Department of Justice - Passed through the State of Michigan - Local Law Enforcement Block Grant:				
Program Year 2001-LB-BX-3980	16.592	2001-LB-BX-3980	52,179	34,270
Program Year 2002-LB-BX-2290	16.592	2002-LB-BX-2290	45,285	3,271
Total Local Law Enforcement Block Grant				37,541
Federal Emergency Management Agency - Passed through the State of Michigan - Emergency Preparedness Program	97.036 97.042	163-47800 163-47800		8,985 12,295
Total Federal Emergency Management Agency				21,280
Total federal awards				<u>\$ 5,191,636</u>

# City of Lincoln Park, Michigan

---

## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

Revenue per schedule of expenditures of federal awards	<u><u>\$ 5,191,636</u></u>
Revenue per basic financial statements:	
General Fund	\$ 58,821
Special Revenue Fund	<u>840,526</u>
Total revenue per basic financial statements	899,347
Federal revenue not included in basic financial statements	3,930,966
Other revenue (program income)	<u>361,323</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 5,191,636</u></u>

# City of Lincoln Park, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Lincoln Park, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Loans Outstanding

The City had the following residential rehabilitation loan balances outstanding at June 30, 2004. These loan balances are not included in the federal expenditures presented in the schedule:

Cluster/Program Title	CFDA Number	Amount Outstanding
Community Development Block Grant	14.218	\$2,081,731

### Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant:		
County Homeless Shelter	14.218	\$ 3,000
Youth Assistance Program	14.218	42,500
Citizens Patrol Watch	14.218	4,375
First Step Program	14.218	2,000
Senior Alliance	14.218	3,300
The Information Center	14.218	1,050
D.A.R.E.	14.218	32,000
Community Policing	14.218	42,752



# **City of Lincoln Park, Michigan**

---

## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

### **Note 4 - Expenditure Reports**

Management has reconciled the expenditures reported in the schedule of expenditures of federal awards to those amounts reported in the annual or final cost reports.

# City of Lincoln Park, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
20.305	U.S. Department of Transportation - Passed through the Michigan Department of Transportation - Reconstruction and Replacement along Highway I-75
14.218	U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# **City of Lincoln Park, Michigan**

---

## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

September 24, 2004

Honorable Mayor and Members  
of the City Council  
City of Lincoln Park  
1355 Southfield Road  
Lincoln Park, Michigan 48146

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Lincoln Park, Michigan for the year ended June 30, 2004. Once again, the entire Accounting Department put forth an outstanding effort in preparing for the audit. In addition to the audit report, we offer the following comments for your consideration.

## STATE SHARED REVENUE

State shared revenue accounts for approximately 24 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

Honorable Mayor and Members  
of the City Council  
City of Lincoln Park

# **STATE SHARED REVENUE** (continued)

The table below details state shared revenue for the City over the past four years, with next year's projected revenue, broken out by statutory and constitutional portions. As you can see, state shared revenue for the City has decreased by more than \$1,000,000 annually from the amount received in 2001.

Year ended June 30	Constitutional	Statutory	Total
2001	\$2,596,000	\$3,976,000	\$6,572,000
2002	\$2,622,000	\$3,704,000	\$6,326,000
2003	\$2,667,000	\$3,380,000	\$6,047,000
2004	\$2,638,000	\$2,796,000	\$5,434,000
2005 – estimated	\$2,750,000	\$2,684,000	\$5,434,000

We will continue to keep you updated as developments occur. The City should take these revenue reductions into consideration in regard to long-range planning.

# **PROPERTY ASSESSMENT CAP**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue as they account for approximately 54 percent of total General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. As mentioned last year, this factor should be considered when the City is involved in long-term financial planning.

## **STATE SHARED REVENUE (continued)**

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. If the City requires additional millage capacity for operations in the future, then a Headlee override vote would be necessary to levy the mills that are authorized in the City Charter.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 16.3731 mills even though the City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue, particularly given the significant gap that now exists between taxable value and state equalized value.

## **PROPERTY TAX MATTERS (October 2004)**

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.

Honorable Mayor and Members  
of the City Council  
City of Lincoln Park

September 24, 2004

### **PROPERTY TAX MATTERS (October 2004) (continued)**

- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

### **REFUSE DISPOSAL (October 2004)**

SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

### **RETIREE HEALTH CARE FUNDING**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. As we mentioned last year, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The Statement will also require the City to have an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability, would also be disclosed. Lastly, the City would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30 year period. As a reminder, the City of Lincoln Park has been setting funds aside for this liability. You currently have approximately \$2,960,000 in the Retirees' Health Benefit Fund. While this is a good start toward funding, you may find that the annual contribution will significantly increase as a result of the actuarial valuation. The new pronouncement is effective for the year ended June 30, 2008.

## **FIVE YEAR PLAN**

As mentioned last year, the City had made great progress in building a healthy fund balance over the past several years. However, during the current year, the City's General Fund expenditures exceeded revenues by approximately \$970,000. This resulted in a reduction of fund balance of approximately 19 percent. Given the uncertainty related to major revenue sources, increasing costs, and the impact of early retirements, we encourage management to make every effort to protect and maintain the level of fund balance. This will ensure the City's health for years to come. As mentioned in previous years, the City should continue to update its five year plan to determine the impact of the above items. The plan will be a valuable tool to assess future fund balance levels. In addition, the plan should encompass alternative measures to ease the burden placed on the General Fund's operating millage to support City financed activities. Alternatively, the City will need to determine if they can continue to provide the same level of City services.

## **ENTREPRISE FUND ACTIVITIES**

While reviewing the Water and Sewer Fund activity we noticed areas where the City could improve its financial operations. The Water and Sewer accounts receivable sub-ledger is currently not reconciled to the general ledger on a monthly basis. An accounts receivable aging was prepared only as of June 30, 2004. The Water and Sewer sub-ledger is a "live" system and aging reports cannot be prepared for prior dates. The Water and Sewer accounts receivable aging report should be prepared and reconciled to the general ledger at least quarterly.

On a positive note, during the year the City detected and repaired a water leak running underneath Ecorse Creek. In 2003, the City experienced a water loss rate of nearly 24 percent, which means that 24 percent of the water purchased from the City of Detroit was never sold to customers. The discovery and repair of the water leak under Ecorse Creek led to a decrease in the water loss rate to 13 percent, which is a reasonable water loss rate for a system of your age.

## **INTERNAL CONTROL PROCEDURES**

As a result of the new Statement on Auditing Standards No. 99, additional testing was performed at the City's Finance Department, Community Center and Senior Center. The focus of this testing was on the City's cash receipt, cash disbursement and manual journal entry procedures. As a result of this testing, some opportunities to improve the City's internal controls were noted. Areas for strengthening internal controls include the following

- There is no formal approval process for manually posted journal entries. Such journal entries should be reviewed and approved prior to posting.
- Water and Sewer meter readers do not vary the routes that they take readings for. There exists the possibility of intentionally misread meters as a result. The City should consider having the meter readers alternate routes as an added control.



## **INTERNAL CONTROL PROCEDURES (continued)**

- Cash receipts from the Community Center are brought to the Treasurer's office to be deposited along with the City's other cash collections. Certain collections at the Community Center during February 2004 were received 12 business days prior to being remitted to the City for deposit. We understand that staff shortages and focused efforts on property tax collections during that time may have resulted in the delay. However, we encourage that cash collections at the remote locations be remitted to the City on a much more timely basis.
- There are no formal procedures in place for adding new vendors to the accounts payable system, which creates the possibility of having fictitious vendors created in the system. Formal procedures for approving new vendors should be established.
- Currently, any checks received through the mail are forwarded to the appropriate department. A listing of checks received is not prepared by the individual opening the mail. To ensure that all checks received are recorded and deposited accurately, a listing of checks received in the mail should be prepared. The listing should be reconciled against the ultimate bank deposit.
- Bank reconciliations are not signed and dated by the preparer or reviewer. Bank reconciliations should be signed and dated by both the preparer and the reviewer to provide evidence of timely preparation and review.

## **PENSION SYSTEMS**

During our testing of the Police and Fire Retirement System board minutes, we noted discussions about certain individuals' intentions to retire and their benefit calculations. However, there was no formal approval documented in the board minutes at the time the employees actually retired. Formal approval for benefit payments should be recorded in the minutes.

As you may know, both of the City's retirement systems are currently underfunded from an actuarial standpoint. The Police and Fire Retirement System is currently 98% funded, while the Municipal Employees' Retirement System is 69% funded. The actuary uses a smoothing methodology for valuing assets. As such, the market value losses experienced over the past several years are not fully reflected in the computation of the employers' contribution. At June 30, 2003 (the date of the most recent actuarial valuation), the pension system net assets at market value were significantly lower than the assets values used by the actuary. The City's required employer contribution will likely increase in the coming years as a result of this situation.

During the year, the City contributed to both the Municipal Employee and the Police and Fire Retirement Systems pension plans according to the estimated payroll for the year beginning July 1, 2003. The actuary gives two contribution options:

1. Contribute a flat dollar amount that the actuary calculates based on the payroll levels at the time of the valuation
2. Contribute a certain percent of payroll

September 24, 2004

Honorable Mayor and Members  
of the City Council  
City of Lincoln Park

## **PENSION SYSTEMS (continued)**

The City has historically used option 1. The early retirements will have an impact on the required contributions to the pension plans for the 2005-2006 fiscal year. Based on changes that will impact the City in the future, consideration should be given to using option 2

## **EXCESS FUND BALANCE IN DEBT FUNDS**

During 2004, the City paid off two general obligation bonds: the water main refunding bonds and the Building Authority bonds. The remaining funds of approximately \$101,000 in the General Debt Fund which was used for the building authority (Court) bonds may be remitted back to the General Fund as the fund balance in this fund resulted from transfers from the General Fund. We understand that the remaining funds of \$416,000 in the Water Bond Debt Fund will be used for retention basin debt. These monies should be formally transferred to these funds and the bank accounts should be closed.

## **MUNICIPAL FINANCE QUALIFYING STATEMENT**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2004) and is good for one year thereafter. This form can be found on-line @ [http://www.michigan.gov/treasury/0,1607,7-121-1751\\_8013---,00.html](http://www.michigan.gov/treasury/0,1607,7-121-1751_8013---,00.html).

## **INVENTORY**

As mentioned in our special inventory procedures performed in August 2004, we recommend that the City continue to follow-up on missing inventory items, as well as to improve the control systems in place for recording inventory and tracking its usage.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Beth A. Bialy



Scott M. Janssen